

TARIFF ACTION MEMO

Date: December 28, 2022

Date Filed: December 1, 2022

Statutory End Date: January 3, 2023

File No: TL67-307

Name of Utility: Kuparuk Transportation Company

Subject: Annual Transportation Rate Revision

Recommendation

Staff recommends the Commission:

1. Approve Tariff Sheet No. 5 filed on December 1, 2022, by Kuparuk Transportation Company, with TL67-307, as shown on the attached side-by-side tariff sheet, see KSA-1. The effective date of the tariff sheet should January 1, 2023.

Please see attached Staff Memorandum supporting the above recommendation.

Signed: Kevin AufDerHeide Title: Utility Financial Analyst
Kevin AufDerHeide

Commission decision regarding this recommendation:

	<u>Date (if different from 12/28/22)</u>	<u>I Concur</u>	<u>I Do Not Concur</u>	<u>I Will Write A Dissenting Statement*</u>
Kurber		<u>KK</u>		
Doyle		<u>RME</u> for RAD BP		
Pickett		<u>RME</u> BP		
Sullivan		<u>DS</u>		
Wilson		<u>JWW</u> JWW		

* If this column is initialed, Staff will contact the Commissioner for the statement; otherwise, the dissent will simply be noted at the close of the By Direction letter or order.

MEMORANDUM

To: Keith Kurber II, Chairman
Robert A. Doyle
Robert M. Pickett
Daniel A. Sullivan
Janis W. Wilson

Date: December 28, 2022

From: Kevin AufDerHeide, Utility Financial Analyst

Subject: Annual Transportation Rate Revision

Recommendation

Staff recommends the Commission:

1. Approve Tariff Sheet No. 5 filed on December 1, 2022, by Kuparuk Transportation Company, with TL67-307, as shown on the attached side-by-side tariff sheet, see KSA-1. The effective date of the tariff sheet should January 1, 2023.

Background

Kuparuk Transportation Company (KTC) operates the Kuparuk Pipeline, which is an approximately 37-mile long pipeline that originates at the Kuparuk River Unit (KRU) oil field on the North Slope of Alaska, and connects to Pump Station 1 of the Trans Alaska Pipeline System (TAPS), with an interconnection at the Milne Point Pipeline between the KRU and Pump Station 1 of TAPS. The Kuparuk Pipeline has two pump stations located on the first ten miles of the system. A ten-mile section of the western portion of the system consists of 18-inch diameter pipe, while the remainder of the pipeline system is 24 inches in diameter.

KTC's rates have been established by settlement since the pipeline's inception. Rates paid for transportation on KTC's pipeline before 2009 were determined under a settlement agreement between KTC and the State of Alaska (State) that was filed in 1992 (1992 Settlement) and accepted in 1993.¹ The 1992 Settlement allowed for negotiations to be re-opened under four conditions in the general categories of throughput, tax rate,

¹Order P-85-2(20), *Order Accepting Settlement, Subject to Condition; Requiring Filing; and Allocating Costs*, dated October 29, 1993.

operating expenses, and capital expenditures. In 2008, the State filed a formal complaint against KTC challenging the intrastate rates being charged.² The State indicated it reopened negotiations with KTC, and when they were unable to reach agreement on a new settlement, the 1992 Settlement was terminated.³

The Commission opened Docket P-08-11 to investigate the State's complaint and intervention was granted to Anadarko Petroleum Corporation (Anadarko).⁴ KTC, the State, and Anadarko were able to resolve their differences through settlement negotiations and filed a new Settlement Agreement, as well as a joint application⁵ for approval of the Settlement Agreement.⁶ The Settlement Agreement resolved all issues pertaining to both intrastate rates as well as interstate rates.

The Commission accepted the Settlement Agreement, which established the calculation of KTC's rates.⁷ The parties agreed to calculate rates on an annual basis using the Kuparuk Settlement Methodology (KSM). KTC is required to file by December 1 of each year revised interstate⁸ and intrastate rates for the following calendar year.⁹ The rates filed may not exceed the maximum rates calculated under the KSM.

Filing

On December 1, 2022, KTC filed TL67-307 proposing to decrease its rate for intrastate transportation of petroleum from the Kuparuk River Unit to Pump Station 1 of TAPS, from \$0.390/barrel (bbl) to \$0.312/bbl and from the Milne Point Connection to

² See TR0807794, *State of Alaska's Complaint Regarding Kuparuk Transportation Company's Rates for Transportation of Hydrocarbons, Request for Initiation of an Investigation and Hearing, and Request for Interim and Refundable Rate Relief Pending Final Adjudication*, filed December 1, 2008 (Complaint).

³ Complaint at page 4.

⁴ Order P-08-11(3), *Order Opening Investigation, Granting Intervention, Scheduling Prehearing Conference, and Requiring Filings*, dated February 26, 2009.

⁵ *Joint Application by Kuparuk Transportation Company, the State of Alaska and Anadarko Petroleum Corporation for Approval or Acceptance of Settlement Agreement*, filed May 20, 2011; *Errata to Joint Application by Kuparuk Transportation Company, the State of Alaska and Anadarko Petroleum Corporation for Approval or Acceptance of Settlement Agreement*, filed May 23, 2011.

⁶ The Settlement Agreement was attached as Exhibit 1 to the Joint Application.

⁷ Order P-08-005(10)/P-08-011(11)/P-10-006(4), *Order Accepting Settlement Agreement and Closing Dockets*, dated July 18, 2011.

⁸ On December 1, 2022, KTC filed the interstate rates with the Federal Energy Regulatory Commission (FERC). See TL67-307 at 1.

⁹ See I-4(e) of the Settlement Agreement.

Pump Station 1 of TAPS, from \$0.287/bbl to \$0.233/bbl, effective January 1, 2023.¹⁰ KTC filed Tariff Sheet No. 5 reflecting the proposed rate increase. KTC asserted the decrease in rates is primarily because the projected cost of service for 2023 is less than the cost of service underlying KTC's existing rates.¹¹

KTC is required to provide all supporting information used to calculate the maximum rates to the State and Anadarko (referred to as the Non-Kuparuk Parties) 60 days prior to filing its revised rates with FERC and the Regulatory Commission of Alaska (Commission). The Settlement also requires the parties to seek to resolve any questions or disputes regarding the rates calculated under the KSM prior to the annual filing of the revised rates.¹² KTC provided the required information to the Non-Kuparuk Parties on October 3, 2022.¹³ Although the Commission did not impose any condition on KTC to provide a hard copy printout or a disk containing the calculation of the rates using the KSM, on December 9, 2022, KTC provided Staff the calculations under separate cover and Staff held them confidential pursuant to 3 AAC 48.040(b)(10).¹⁴

Notice

The Commission publicly noticed TL67-307 on December 5, 2022, with a comment period ending December 27, 2022. The Commission received no comments or protests. In addition to the Commission's public notice, KTC electronically notified the Non-Kuparuk Parties and KTC's shippers.¹⁵

¹⁰ Alpine Transportation Company requested an early effective date of January 1, 2023, which the Commission approved on December 5, 2022. See Staff Memorandum for Alpine Transportation Company and Kuparuk Transportation Company.

¹¹ TL67-307 at 1.

¹² See Section I-5(a)(i) of the Settlement Agreement.

¹³ TL67-307 at 2.

¹⁴ 3 AAC 48.040 Confidential Records.

(b) The following records are confidential and are not open to inspection by the public unless they are released under 3 AAC 48.049 or court order or their release is authorized by the person with confidentiality interests:

(10) records of a regulated public utility, pipeline carrier, or pipeline submitted to or copied by the commission's advisory staff during any audit, review, or investigation in connection with any formal or informal proceeding

¹⁵ TL67-307 at 2.

Discussion

KSM

Staff reviewed the components¹⁶ of the Settlement Agreement and the confidential excel schedules and verified the rates were calculated in accordance with the KSM. Under the KSM, the total cost of service is calculated as follows: ((Operating Expense + DR&R Allowance + Depreciation + Equity AFUDC Amortization + IDC Amortization + Return on Rate Base + Income Tax Allowance + Net Carryover) – Rental Credit)).¹⁷ The maximum rate is calculated using the projected distance portion of the total cost of service, the projected non-distance portion of cost of service, and throughput volumes for each origin (Kuparuk River Unit and Milne Point Connection). The total cost of service is then allocated to each origin and destination based on a barrel and barrel mile rate design. Non-distance related costs are allocated based on barrels transported for each origin and destination and distance related costs are allocated based on barrel miles for each destination.¹⁸

Staff also reviewed the model and verified KTC's assertion that the effect of the decrease in the cost of service results in the decrease to rates. Staff has not recalculated the model's computations, but rather accepts that the KSM model accepted by the Commission in Order P-08-5(10)/P-08-11(11)/P-10-6(4) functions as designed. Staff notes that it was not able to independently verify the individual cost components or throughput volumes of the rate calculations because calculations are derived from company estimates, to which Staff does not have access. Therefore, Staff is relying on the settling parties to protest the proposed rate by filing comments during the public notice period if they believe the proposed rates violate the KSM.

Tariff Sheet

KTC filed a revised Tariff Sheet No. 5, reflecting the proposed rate increase. Staff reviewed the Tariff Sheet and verified the rates were accurate.

Conclusion

¹⁶ See Sections II-5, II-6, II-7, II-8, II-9, II-10, II-11, II-14, Exhibit B, Exhibit C, Exhibit D, and Exhibit E of the Settlement Agreement.

¹⁷ See Section II-3(a) of the Settlement Agreement.

¹⁸ See Section II-1 of the Settlement Agreement.

Staff's review of TL67-307 indicates that KTC's proposed rate revisions, as calculated, are less than or equal to the maximum allowable rate in accordance with the Settlement Agreement, and therefore, Staff recommends the Commission approve Tariff Sheet No. 5, filed with TL67-307 on December 1, 2022, with an effective date of January 1, 2023.

Signature: Keith Kurber II
Keith Kurber II (Dec 28, 2022 08:38 AKST)

Email: keith.kurber@alaska.gov

Signature: Robert M. Pickett

Email: bob.pickett@alaska.gov

Signature: Daniel Sullivan
Daniel Sullivan (Dec 28, 2022 10:01 AKST)

Email: daniel.sullivan@alaska.gov

Signature: Janis W. Wilson
Janis W. Wilson (Dec 28, 2022 10:16 AKST)

Email: janis.wilson@alaska.gov

RCA No. 307 18th Revision Sheet No. 5
Canceling
17th Revision Sheet No. 5

RECEIVED
DEC 01 2021

STATE OF ALASKA
REGULATORY COMMISSION OF ALASKA

Kuparuk Transportation Company

SECTION 3

RATES

ITEM	FROM	TO	RATE	
3.1	Kuparuk River Unit	Pump Station 1 Trans Alaska Pipeline System	\$0.390/bbl	I
3.2	Milne Point Pipeline Connection	Pump Station 1 Trans Alaska Pipeline System	\$0.287/bbl	I

Tariff Advice No. TL66-307 Effective: January 1, 2022

Issued by: Kuparuk Transportation Company

By: /s/ Raj Choudhury
Raj Choudhury

Title: Vice President of Kuparuk Pipeline Company
Managing Partner of Kuparuk Transportation Company

RCA No. 307 19th Revision Sheet No. 5
Canceling
18th Revision Sheet No. 5



Kuparuk Transportation Company

SECTION 3

RATES

ITEM	FROM	TO	RATE	
3.1	Kuparuk River Unit	Pump Station 1 Trans Alaska Pipeline System	\$0.312/bbl	R
3.2	Milne Point Pipeline Connection	Pump Station 1 Trans Alaska Pipeline System	\$0.233/bbl	R

Tariff Advice No. TL67-307 Effective: January 1, 2023

Issued by: Kuparuk Transportation Company

By: /s/ Cameron Reitmeier
Cameron Reitmeier

Title: Vice President of Kuparuk Pipeline Company
Managing Partner of Kuparuk Transportation Company